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P 171242Z MAY 07
FM AMEMBASSY PANAMA
TO RUEHC/SECSTATE WASHDC PRIORITY 0391
RHMFIUU/DEPT OF ENERGY WASHINGTON DC PRIORITY
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE PRIORITY
RUEHBO/AMEMBASSY BOGOTA PRIORITY 2586
RUEHCV/AMEMBASSY CARACAS PRIORITY 1133
RUEHDO/AMEMBASSY DOHA PRIORITY 0005
RUEHME/AMEMBASSY MEXICO PRIORITY 3547
RUEHQT/AMEMBASSY QUITO PRIORITY 0936
RHMFISS/CDR USSOUTHCOM MIAMI FL PRIORITY
RUEAIIA/CIA WASHDC PRIORITY
RUCPDOG/DEPT OF COMMERCE WASHDC PRIORITY
RHEFDIA/DIA WASHDC PRIORITY
RHEHAAA/NSC WASHDC PRIORITY

UNCLAS PANAMA 000807

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STATE FOR WHA/CEN - TELLO
ALSO FOR WHA/EPSC - CORNEILLE
ALSO FOR EB/ESC/IEC/EPC - MCMANUS

E.O. 12958: N/A

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SUBJECT: OXY INKS MOU WITH GOP AND QATAR PETROLEUM TO
ADVANCE \$7 BILLION PANAMA REFINERY PROJECT

¶1. Summary: Occidental Petroleum (Oxy) joined with Qatar Petroleum on May 15 to advance its proposed \$7 billion, 350,000 barrel per day (bpd) refinery in Panama. This gives Panama a leg up on establishing a regional refinery and would deliver a huge boost for an area of the country that has struggled economically for several years. However, the social dynamics created by a large influx of foreign workers for the near simultaneous development of the refinery and the Panama Canal expansion project bears close watching. As will the impact of the two projects on Panama's ever-tightening supply of electricity. End summary.

¶2. On May 15, Occidental Petroleum (Oxy) signed a memorandum of understanding (MOU) with the GOP and Qatar Petroleum to begin Phase II pre-engineering work on Oxy's proposed construction of a \$7-8 billion refinery in the Puerto Armuelles area of Panama. (Puerto Armuelles is on the Pacific coast in Panama's westernmost province, Chiriqui, next to Costa Rica.) The refinery would take crude oil from various sources and produce up to 350,000 barrels per day of refined product aimed at markets in the region and the western U.S. The project would also include construction of a 200 megawatt (MW) electrical power plant.

¶3. With President Martin Torrijos looking on, Oxy's President of Oil & Gas, John Morgan, inked the MOU with Minister of Trade & Industry Alejandro Ferrer and Abdullah Bin Hamad Al-Attiyah, Qatar's Deputy Prime Minister and Minister of Energy. Following completion of the \$15-20 million Phase II work in approximately nine to twelve months, Oxy and Qatar Petroleum would proceed with full engineering and design (Phase III), followed by construction (Phase IV), with completion expected by 2012.

¶4. Oxy executives believe Panama is an "excellent location" for the refinery and they expect the project could create up to 1,500 direct jobs, as well as up to 12,000 jobs during the construction phase. The GOP clearly hopes this project would spark nearby development of support services and related industries, such as petrochemical, fertilizer, and plastics plants. Qatar's energy minister touted the Panama refinery as "one of the biggest refinery projects in the world." He

said that it offers Qatar Petroleum an important "gateway" to the Latin American and U.S. markets.

15. Comment: This project gives Panama a leg up on capturing the "regional refinery" that has been subject to extensive discussion over the past year. The project's scale would exceed the planned \$5.25 billion Panama Canal expansion project and it represents nearly half of Panama's 2006 real GDP of about \$15 billion. It would deliver a huge boost for a region that has struggled economically since the United Fruit Company's (Chiquita Banana) 2003 exit from Puerto Armuelles. However, as Panama has a shallow pool of skilled labor, the country would be hard pressed fill the jobs created by either the Panama Canal expansion or the Puerto Armuelles refinery project. The social dynamics created by a large influx of foreign workers for the near simultaneous development of these projects will bear close watching. As will the impact of the two projects on Panama's ever-tightening supply of electricity, as demand levels have recently approached the country's reliable installed capacity of about 1,100 MW. End comment.
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